Social Security Financing and Status: Implications of COVID-19

Steve Goss

Chief Actuary

Social Security Administration

Chicago Actuarial Association

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Social Security: Who Pays, Who Benefits

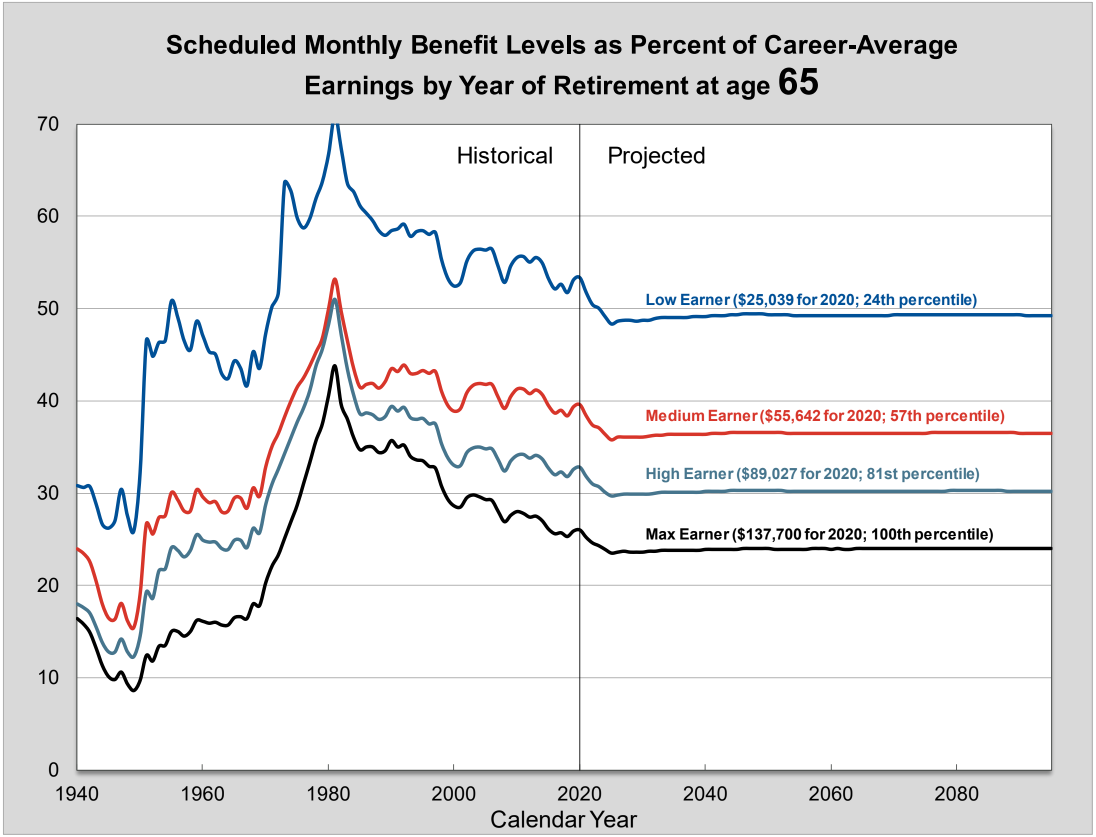
WHO PAYS?

- 95 percent of workers contribute—177 million in 2020
  - 12.4% of earnings up to $142,800 in 2021 (6 percent of workers earn more)
  - 25% of state and local government employees are not in Social Security

WHO BENEFITS?

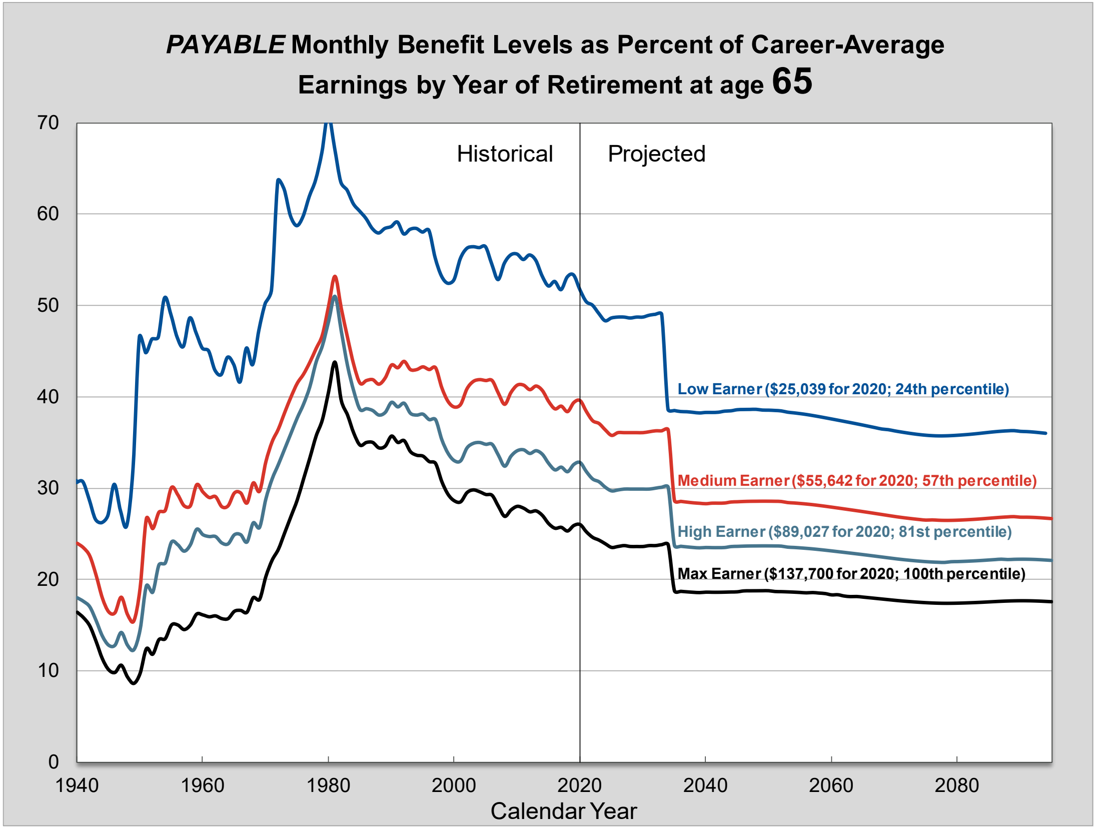
- 65 million retirement, survivor, disability beneficiaries in 2020
  - 46 million retirees, plus another 3 million of their spouses and children
  - Plus 6 million survivors
  - Plus 9 million disabled workers and their dependents
- And 156 million workers are insured against disability or death

Scheduled Benefit Replacement Rates Based on the 2020 Trustees Report



Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

***Payable* Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower**



Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

Social Security Financing

- Basically “pay-as-you-go”
  - Current workers provide for current beneficiaries
  - Trust Funds are “contingency reserve” because CANNOT borrow
  - Total spending to date cannot exceed income to date
- Current OASDI reserves (excess income) = $2.9 trillion
  - Available to augment tax income as needed
- Reserves projected to deplete in 2034* under current law
  - ***Expect Congress to act—as it always has***

** Per OCACT update of 2020 Trustees’ baseline (11/24/20)*

First, Social Security Actuarial Status under 2020 Trustees Report

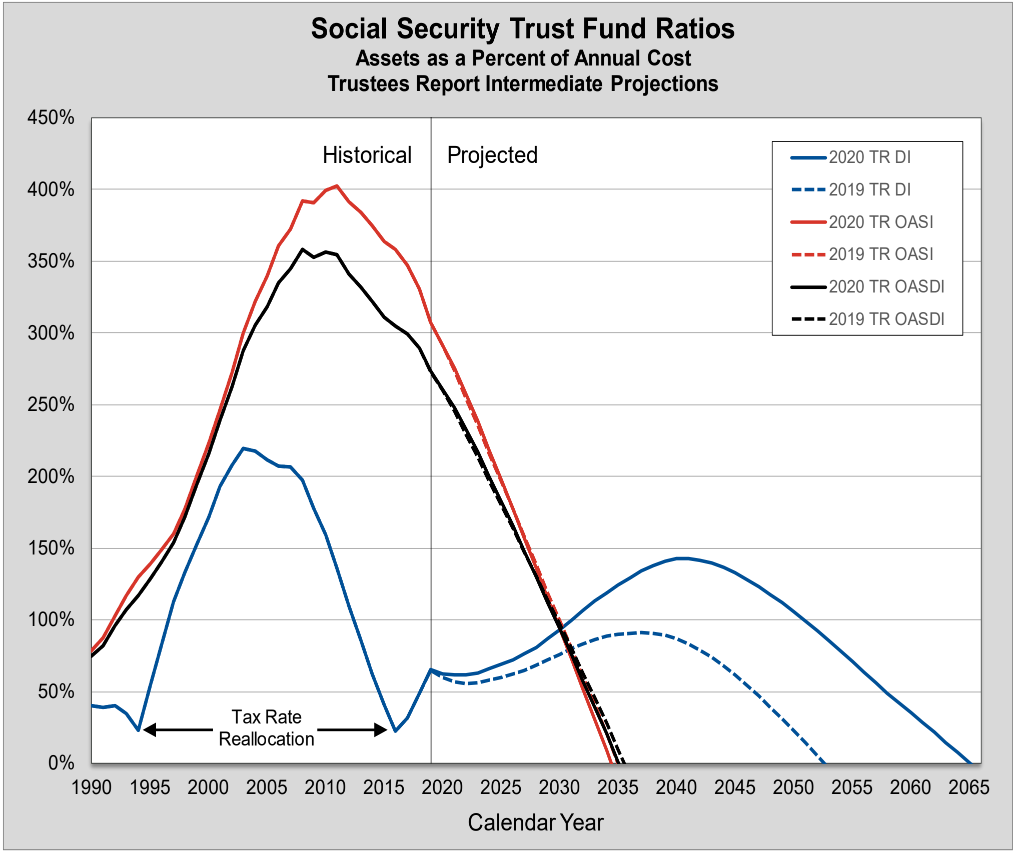
DEVELOPED PRIOR TO RECOGNITION OF THE PANDEMIC AND RECESSION

Solvency: OASDI Trust Fund Reserve Depletion in 2035 (same as last year)

Reserve depletion date varied from 2029 to 2042 in reports over the past 30 years (1991-2020).

DI Trust Fund – reserve depletion in 2065, thirteen years later than last year.

Due largely to low recent and near-term disability applications and awards, and an assumed lower ultimate disability incidence rate.



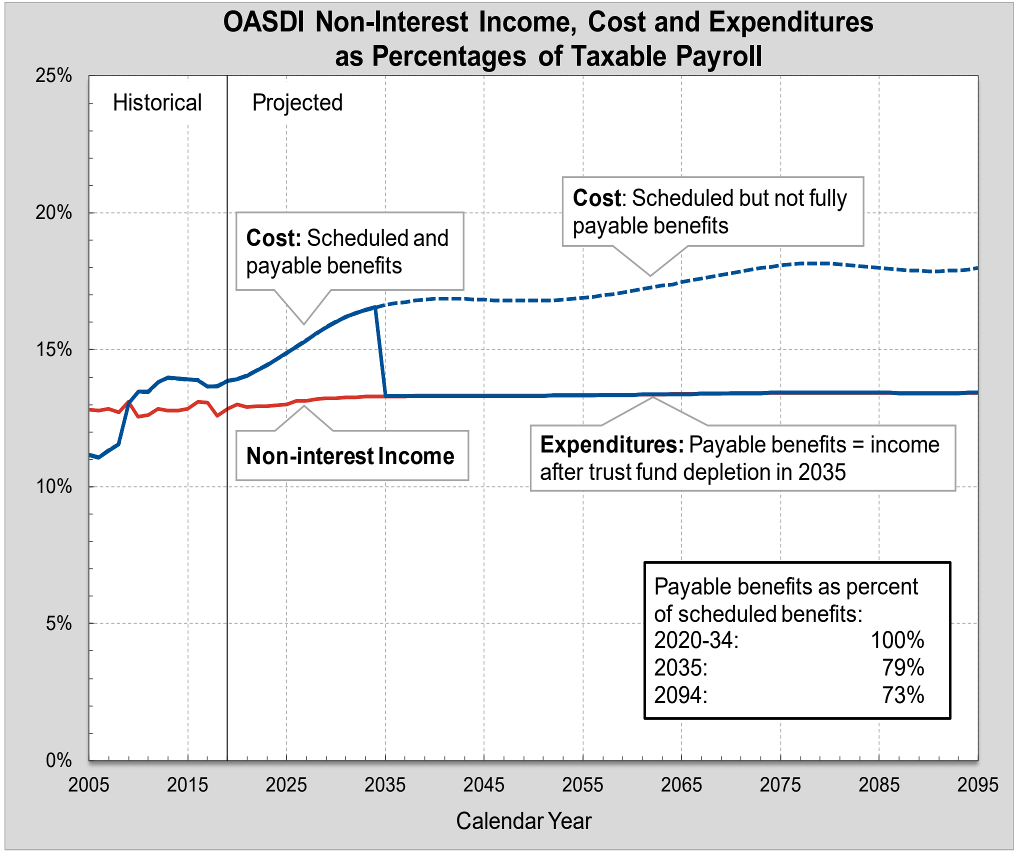
OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual balance starting in 2010.

79 percent of scheduled benefits still payable at trust fund reserve depletion.

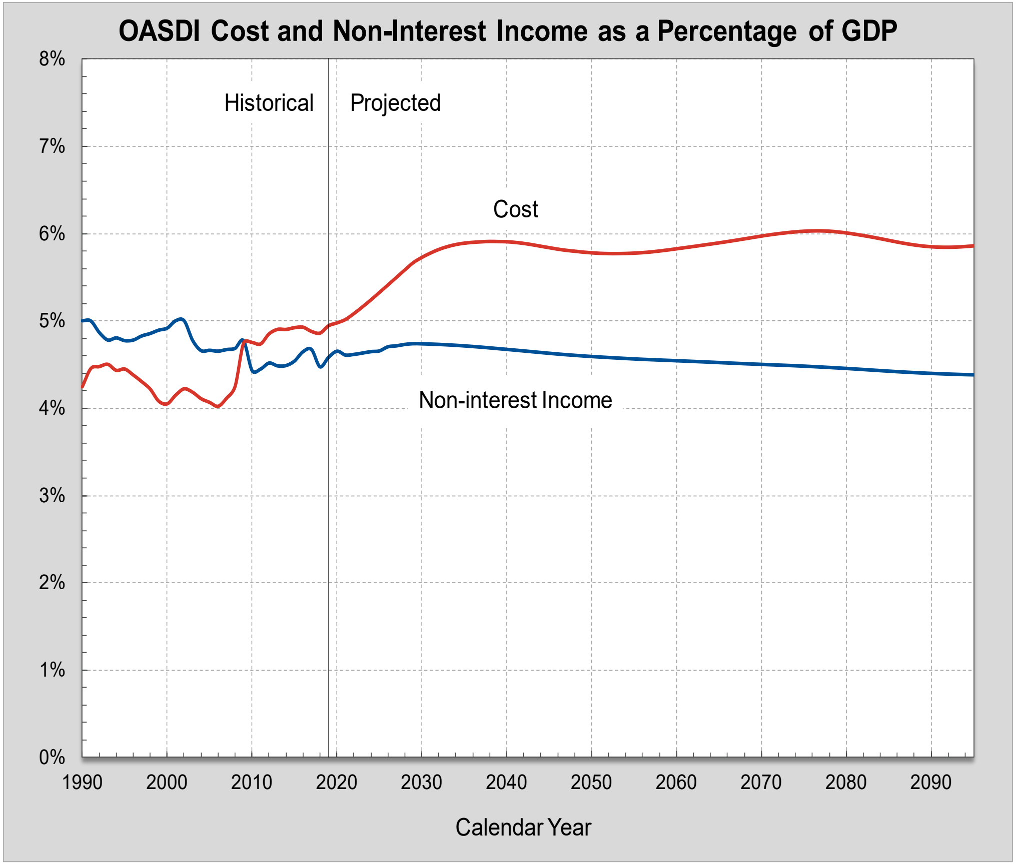
Annual Deficit in 2094:

4.51 percent of payroll – 0.36 percent larger than last year



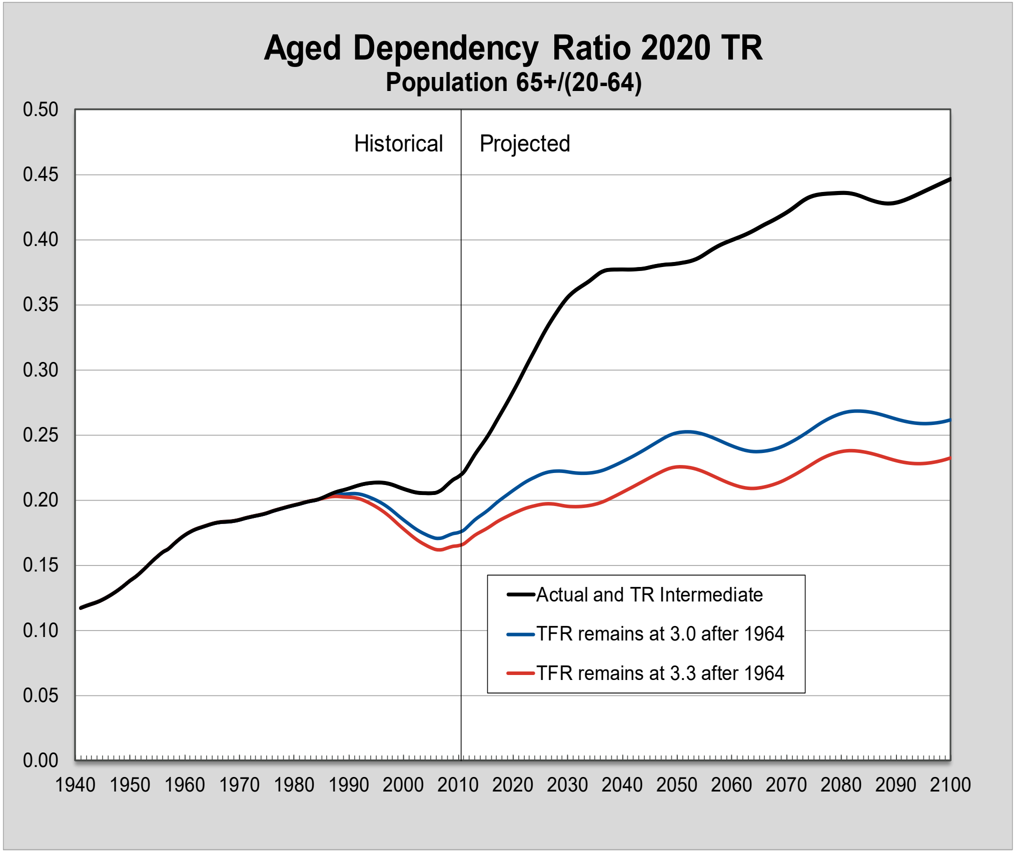
SUSTAINABILITY: Cost as percent of GDP

Rises from a 4.2 percent average in 1990-2008, to about 5.9 percent by 2038, then declines to 5.8 percent by 2053, and generally increases to 5.9 percent by 2094.



Why Cost Rises Between 2008 and 2035 as Percent of Payroll and GDP: Aging - Change in Age Distribution

Mainly due to drop in birth rates



COVID-19 Effects on Social Security Actuarial Status

UPDATE TO 2020 TRUSTEES REPORT : “SUBSEQUENT EVENT” FOR AUDIT

For 2020, Subsequent Event Unprecedented

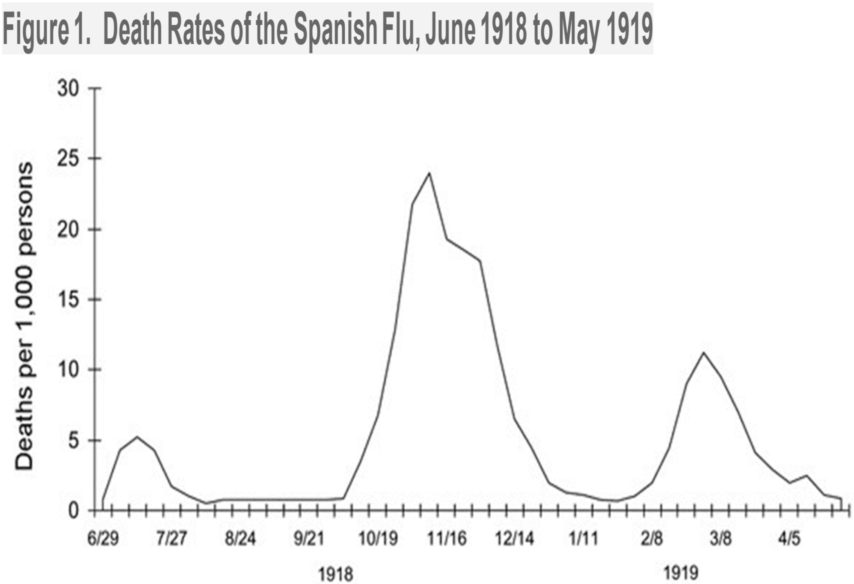
1) COVID-19 not reflected in the 2020 Trustees Report
   – Report issued in April, but assumptions were determined before pandemic was declared by the WHO in March
2) OCACT developed modifications to the 2020 TR assumptions in September/October per requirement by the auditors
3) Reflected experience and expectations at that time
4) Significant effects that caused us to indicate that evaluation of "solvency" proposals prior to the 2021 TR would be evaluated on the basis of the updated baseline
   https://www.ssa.gov/OACT/solvency/UpdatedBaseline_20201124.pdf

Characteristics of COVID-19

- Highly communicable
- Transmissible prior to symptoms
  - Many never show symptoms
- Immunity after infection may be limited
  - Waning in the first 12 months?; implications for “herd immunity”
  - Potential for repeated reinfection?
- Death rate overall 0.4% to 1%: proportionate increase across ages 25 and over
- Subsequent “compromise” for current generations?
- Increasing mutations—vaccine and therapy? How effective?

Potential Path Going Forward

1918: worst case scenario? Will we do much better in 2021?



Source: The Spanish Flu and the Stock Market: The Pandemic of 1919 by Bryan Taylor | Feb 27, 2020 | Economics, Historical, Insights

- Will we avert a substantial additional wave in 2021? If so, we may be able to return to "normal" by the end of the year

Implications of COVID-19 for Changes in OASDI

- Over the long-range period, likely minor
  - The pandemic-induced recession may be largely recovered by 2023 with little permanent effect
  - Note that Trustees Reports have incorporated the likelihood of periodic negative events
    - Specifically, Trustees Report ultimate mortality decline has been assumed to be at around 0.73 percent on average; others have persistently assumed 1.0 percent or higher in the long term with no deceleration
    - The Trustees Reports have also assumed long-term unemployment rates will be higher on average than “forecasters”, reflecting occasional downturns
- However, there are near-term considerations

2020 Subsequent Event Principal Changes

Births: Lower in 2020 and 2021, with those reductions delayed into the following 3 years

Mortality: higher by 12% in 2020, 6% in 2021, and 2% in 2022

No net effect thereafter

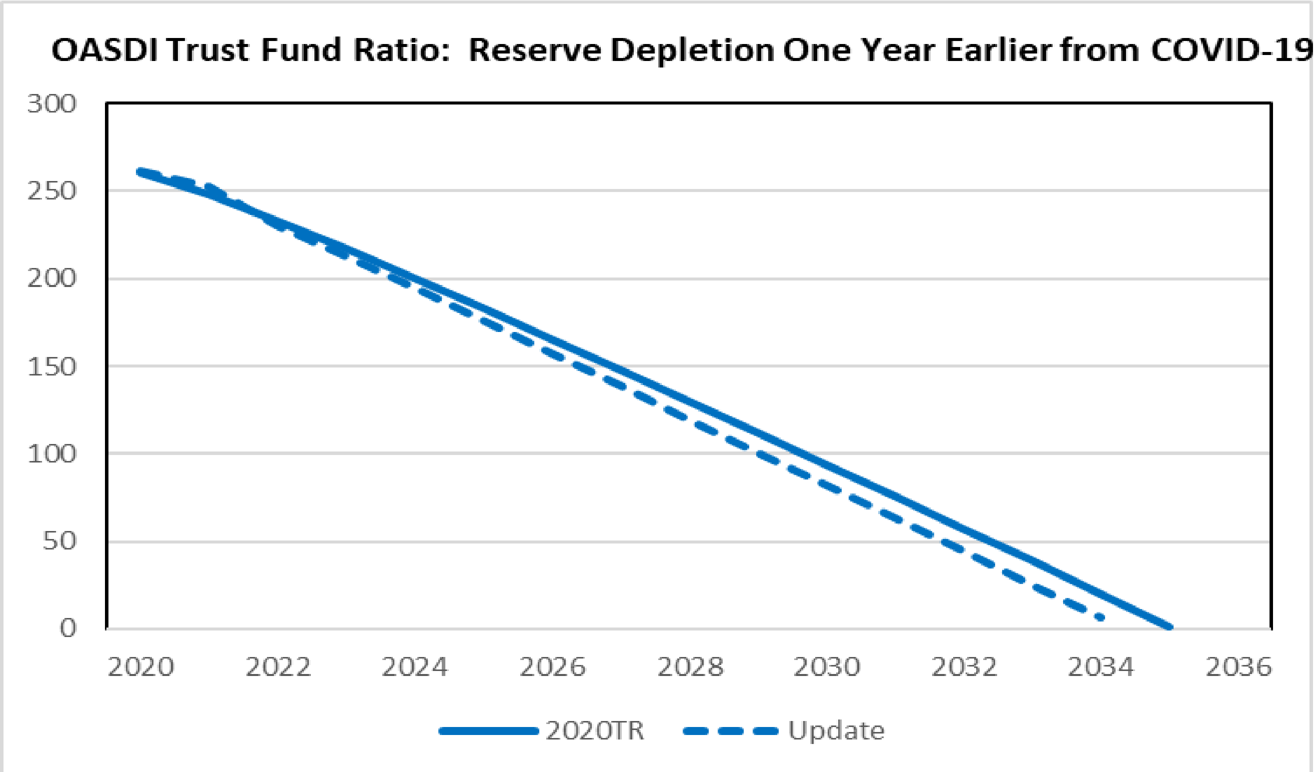
Disability Applications: Lower in 2020, with reductions made up in following 2 years

Employment reduced in 2020 but full recovered by mid 2023

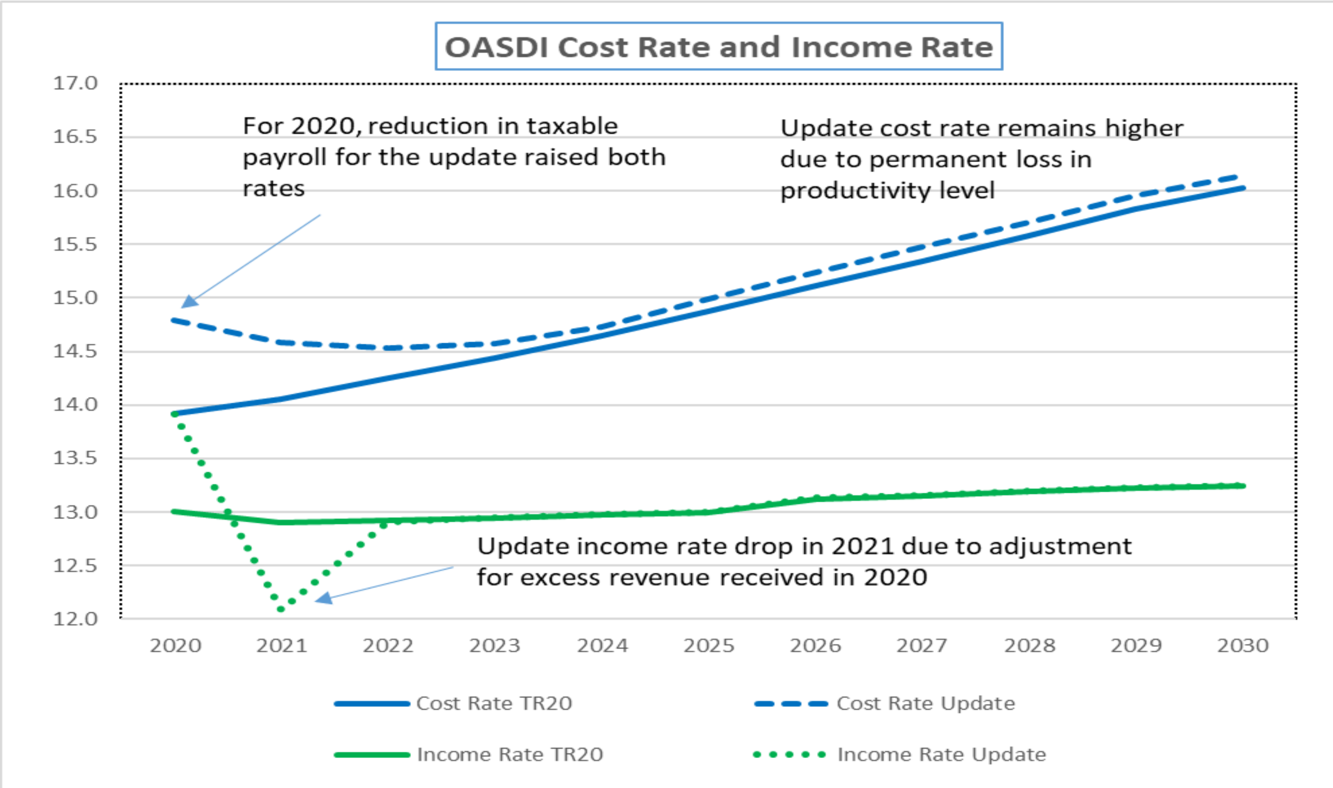
GDP, productivity, earnings levels lowered permanently by about 1%

SOLVENCY: OASDI Long-Range Actuarial Deficit Increased by 0.07 Percent of Payroll

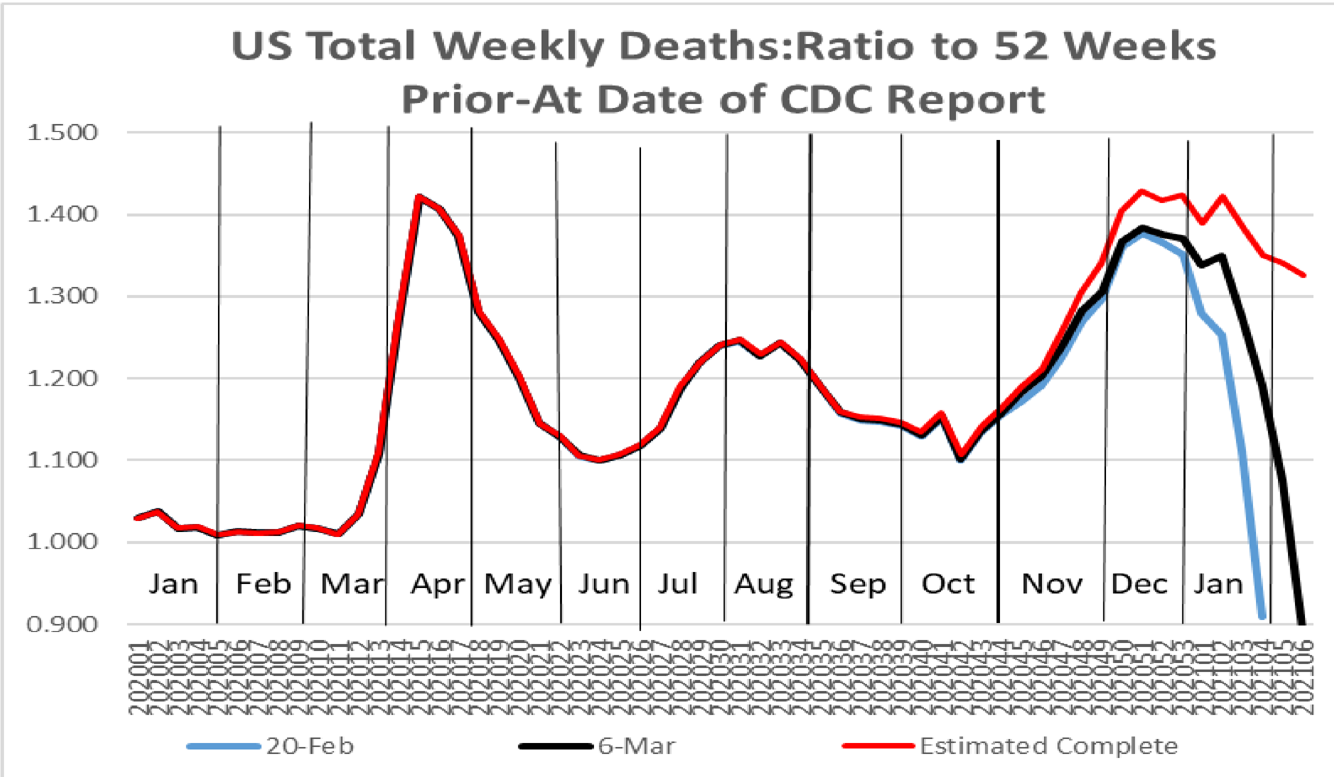
- Reserve depletion date varied from 2029 to 2042 in reports over the past 30 years
- For OASDI and OASI, 2034 and 2033, one year earlier than 2020 Trustees Report
- For DI, 2059, six years earlier than the 2020 Trustees Report



OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010
Both rates higher for update in 2020 ONLY because of lower payroll



Update on increase in U.S. Deaths in 2020 based on Latest CDC data released on March 12 (through deaths in March 6), and Estimated Complete



So: How to Address Shortfalls?

- Congress will need to act by 2034 to either:
  - Lower cost by about 25 percent
  - Increase revenue by about 33 percent
  - Or some combination
  - Options?

Some Ways to Lower Cost

- Lower benefits for retirees–not disabled?
  - Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  - Can exempt long-career low earners (Simpson Bowles 2010)
- Lower benefits mainly for high earners?
  - Reduce PIA above some level
  - Noting that higher earners generally live longer
- Lower benefits mainly for the oldest old?
  - Reduce the COLA
  - Others say increase it with the CPI-E (based on purchases of consumers over age 62)

Some Ways to Increase Revenue

- Raise the 12.4 percent OASDI payroll tax rate?
- Raise tax on highest earners?
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum
- Tax employer group health insurance premiums?
  - Affects only middle class if taxable maximum remains
- Tax investment income?
  - Or potentially a wealth tax?

Finally, Timing for Changes

- Historically, Congress has waited until reserve depletion is imminent
  - Given uncertainties, difficult to lower benefits or raise taxes until necessary
- Enacting “sooner” allows more options, more gradual phase in, and more advance notice
  - Best example: 17-year delay in implementing NRA increase in 1983 amendments
- OASDI reserve depletion now projected for 2034
  - One year sooner in update due to COVID-19
  - The date has varied between 2029 and 2042 over the past 30 years

For More Information Go To http://www.ssa.gov/oact/

- There you will find:
  - All OASDI Trustees Reports: 1941-2019
  - Detailed single-year tables for recent reports
  - Our estimates for comprehensive proposals
  - Our estimates for the individual provisions
  - Actuarial notes; including replacement rates
  - Actuarial studies
  - Extensive databases
  - Congressional testimonies
  - Presentations by OCACT employees